



[3510-16-P]

**DEPARTMENT OF COMMERCE**

**Patent and Trademark Office**

**37 CFR Part 42**

**[Docket No. PTO-P-2011-0085]**

**RIN 0651-AC73**

**Changes to Implement Transitional Program for Covered Business Method Patents**

**AGENCY:** United States Patent and Trademark Office, Commerce.

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** The United States Patent and Trademark Office (Office or USPTO) proposes new rules to implement the provisions of the Leahy-Smith America Invents Act that create a new transitional post-grant review proceeding for covered business method patents to be conducted before the Patent Trial and Appeal Board (Board). These provisions of the Leahy-Smith America Invents Act will take effect on September 16, 2012, one year after the date of enactment. These provisions and any regulations issued

under these provisions will be repealed on September 16, 2020, with respect to any new petitions under the transitional program.

**DATES:** The Office solicits comments from the public on this proposed rulemaking.

Written comments must be received on or before **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]** to ensure consideration.

**ADDRESSES:** Comments should be sent by electronic mail message over the Internet addressed to: [TPCBMP\\_Rules@uspto.gov](mailto:TPCBMP_Rules@uspto.gov). Comments may also be submitted by postal mail addressed to: Mail Stop Patent Board, Director of the United States Patent and Trademark Office, P.O. Box 1450, Alexandria, VA 22313-1450, marked to the attention of “Lead Judge Michael Tierney, Covered Business Method Patent Review Proposed Rules.”

Comments may also be sent by electronic mail message over the Internet via the Federal eRulemaking Portal. See the Federal eRulemaking Portal Web site (<http://www.regulations.gov>) for additional instructions on providing comments via the Federal eRulemaking Portal.

Although comments may be submitted by postal mail, the Office prefers to receive comments by electronic mail message over the Internet because sharing comments with the public is more easily accomplished. Electronic comments are preferred to be

submitted in plain text, but also may be submitted in ADOBE® portable document format or MICROSOFT WORD® format. Comments not submitted electronically should be submitted on paper in a format that facilitates convenient digital scanning into ADOBE® portable document format.

The comments will be available for public inspection at the Board of Patent Appeals and Interferences, currently located in Madison East, Ninth Floor, 600 Dulany Street, Alexandria, Virginia. Comments also will be available for viewing via the Office's Internet Web site (<http://www.uspto.gov>). Because comments will be made available for public inspection, information that the submitter does not desire to make public, such as an address or phone number, should not be included in the comments.

**FOR FURTHER INFORMATION CONTACT:** Michael Tierney, Lead Administrative Patent Judge, Sally Medley, Administrative Patent Judge, Robert Clarke, Administrative Patent Judge, and Joni Chang, Administrative Patent Judge, Board of Patent Appeals and Interferences, by telephone at (571) 272-9797.

**SUPPLEMENTARY INFORMATION:**

On September 16, 2011, the Leahy-Smith America Invents Act was enacted into law (Pub. L. 112-29, 125 Stat. 284 (2011)). The purpose of the Leahy-Smith America Invents Act and these proposed regulations is to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs. The preamble of this notice sets forth in detail the

procedures by which the Board will conduct transitional covered business method patent review proceedings. The USPTO is engaged in a transparent process to create a timely, cost-effective alternative to litigation. Moreover, the rulemaking process is designed to ensure the integrity of the trial procedures. See 35 U.S.C. 326(b). The proposed rules would provide a set of rules relating to Board trial practice for transitional covered business method review proceedings.

Section 18 of the Leahy-Smith America Invents Act provides that the Director will establish regulations establishing and implementing a transitional program for the review of covered business method patents. Section 18(a)(1) of the Leahy-Smith America Invents Act provides that the transitional proceeding will be regarded as, and will employ the standards and procedures of, a post-grant review under chapter 32 of title 35 United States Code, subject to certain exceptions. For instance, a petitioner in a covered business method patent review may request to cancel as unpatentable one or more claims of a patent on any ground that could be raised under 35 U.S.C. 282(b)(2) or (3) (relating to invalidity of the patent or any claim) (see 35 U.S.C. 321(b)); and the determination by the Director whether to institute a covered business method patent review will be final and nonappealable (see 35 U.S.C. 324(e)). Section 18(a)(1)(A) of the Leahy-Smith America Invents Act provides that 35 U.S.C. 321(c) and 35 U.S.C. 325(b), (e)(2), and (f) will not apply to a transitional proceeding.

Section 18(a)(1)(B) of the Leahy-Smith America Invents Act specifies that a person may not file a petition for a transitional proceeding with respect to a covered business method

patent unless the person or person's real party in interest or privy has been sued for infringement of the patent or has been charged with infringement under that patent.

Section 18(a)(1)(C) of the Leahy-Smith America Invents Act further provides that limited prior art shall apply for those challenged covered business method patents granted under first-to-invent provisions. Specifically, section 18(a)(1)(C) provides:

- A petitioner in a transitional proceeding who challenges the validity of 1 or more claims in a covered business method patent on a ground raised under section 102 or 103 of title 35, United States Code, as in effect on the day before the effective date set forth in section 3(n)(1), may support such ground only on the basis of—
  - prior art that is described by section 102(a) of such title of such title (as in effect on the day before such effective date); or
  - prior art that—
    - discloses the invention more than 1 year before the date of the application for patent in the United States; and
    - would be described by section 102(a) of such title (as in effect on the day before the effective date set forth in section 3(n)(1)) if the disclosure had been made by another before the invention thereof by the applicant for patent.

Section 18 of the Leahy-Smith America Invents Act provides that the Director may institute a transitional proceeding only for a patent that is a covered business method patent. Section 18(d)(1) of the Leahy-Smith America Invents Act specifies that a covered business method patent is a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include

patents for technological inventions. Section 18(d)(2) provides that the Director will issue regulations for determining whether a patent is for a technological invention.

The Leahy-Smith America Invents Act provides that the transitional program for the review of covered business method patents will take effect on September 16, 2012, one year after the date of enactment, and applies to any covered business method patent issued before, on, or after September 16, 2012. Section 18 of the Leahy-Smith America Invents Act and the regulations issued under § 18 are repealed on September 16, 2020. Section 18 and the regulations issued will continue to apply after September 16, 2020, to any petition for a transitional proceeding that is filed before September 16, 2020. The Office will not consider a petition for a transitional proceeding that is filed on or after September 16, 2020.

### **Discussion of Specific Rules**

This notice proposes new rules to implement the provisions of the Leahy-Smith America Invents Act for the transitional program for covered business method patents. As previously discussed, § 18(a)(1) of the Leahy-Smith America Invents Act provides that the Director shall issue regulations establishing and implementing a transitional post-grant review proceeding for the review of covered business method patents. In particular, this notice proposes to add a new subpart D to 37 CFR part 42 to provide rules specific to transitional post-grant review of covered business method patents. Pursuant to § 18(d)(2) of the Leahy-Smith America Invents Act, the Office in a separate rulemaking is proposing the definition of a technological invention (RIN 0651-AC75).

Additionally, the Office in a separate rulemaking is proposing to add part 42, including subpart A, (0651-AC70) that would include a consolidated set of rules relating to Board trial practice. More specifically, the proposed subpart A of part 42 would set forth the policies, practices, and definitions common to all trial proceedings before the Board. The proposed rules in the instant notice and discussion below may reference the proposed rules in subpart A of part 42. Furthermore, the Office in separate rulemakings is proposing to add a new subpart B to 37 CFR part 42 (RIN 0651-AC71) to provide rules specific to inter partes review, a new subpart C to 37 CFR part 42 (RIN 0651-AC72) to provide rules specific to post-grant review, and a new subpart E to 37 CFR part 42 (RIN 0651-AC74) to provide rules specific to derivation. The notices of proposed rulemaking are available on the USPTO Internet Web site at [www.uspto.gov](http://www.uspto.gov).

Title 37 of the Code of Federal Regulations, Chapter I, Part 42, Subpart D, entitled “Transitional Program for Covered Business Method Patents” is proposed to be added as follows:

Section 42.300: Proposed § 42.300 would set forth policy considerations for covered business method patent review proceedings.

Proposed § 42.300(a) would provide that a covered business method patent review is a trial and subject to the rules set forth in subpart A and also subject to the post-grant review procedures set forth in subpart C except for §§ 42.200, 42.201, 42.202, and 42.204. This is consistent with § 18(a)(1) of the Leahy-Smith America Invents Act,

which provides that the transitional proceeding shall be regarded as, and shall employ the standards and procedures of, a post-grant review with certain exceptions.

Proposed § 42.300(b) would provide that a claim in an unexpired patent shall be given its broadest reasonable construction in light of the specification in which it appears. This proposed rule would be consistent with longstanding established principles of claim construction before the Office. See, e.g., In re Am. Acad. of Sci. Tech Ctr., 367 F.3d 1359, 1364 (Fed. Cir. 2004); In re Yamamoto, 740 F.2d 1569, 1571 (Fed. Cir. 1984). As explained in Yamamoto, a party's ability to amend claims to avoid prior art distinguishes Office proceedings from district court proceedings and justifies the difficult standard for claim interpretation. Yamamoto, 740 F.2d at 1572.

Proposed § 42.300(c) would provide a one-year timeframe for administering the proceeding after institution, with a six-month extension for good cause. This proposed rule is consistent with 35 U.S.C. 326(a)(11), which sets forth statutory time frames for post-grant review.

Proposed § 42.300(d) would provide that the rules in subpart D are in effect until September 15, 2020, except that the rules shall continue to apply to any covered business method patent review filed before the date of repeal. This is consistent with § 18(a)(3) of the Leahy-Smith America Invents Act, which provides that the regulations issued are repealed effective upon the expiration of the eight-year period beginning on the date that the regulations take effect.

Section 42.301: Proposed § 42.301 would provide definitions specific to covered business method patent reviews.

Proposed § 42.301(a) would adopt the definition for covered business method patents provided in § 18(d)(1) of the Leahy-Smith America Invents Act. Specifically, the proposed definition would provide that covered business method patent means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.

Pursuant to § 18(d)(2) of the Leahy-Smith America Invents Act, the Office in a separate rulemaking is proposing the definition of a technological invention, which would be set forth in proposed § 42.301(b).

Section 42.302: Proposed § 42.302 would identify who may file a petition for a covered business method patent review.

Proposed § 42.302(a) would provide that a petitioner may not file a petition to institute a covered business method patent review of the patent unless the petitioner, the petitioner's real party in interest, or a privy of the petitioner has been sued for infringement of the patent or has been charged with infringement under that patent. This proposed rule is consistent with § 18(a)(1)(B) of the Leahy-Smith America Invents Act.

Proposed § 42.302(b) would provide that a petitioner may not file a petition to institute a covered business method patent review of the patent where the petitioner, the petitioner's real party in interest, or a privy of the petitioner is estopped from challenging the claims on the grounds identified in the petition. The proposed rule is consistent with

35 U.S.C. 325(e)(1), which provides for estoppel based upon a final written decision in a post-grant review.

Section 42.303: Proposed § 42.303 would provide that a petition for a covered business method patent review may be filed at any time prior to or after the time a petition for a post-grant review of the patent would satisfy the requirements of 35 U.S.C. 321(c). This proposed rule is consistent with § 18(a)(2) of the Leahy-Smith America Invents Act.

Section 42.304: Proposed § 42.304 would provide for the content of petitions to institute a covered business method patent review. The proposed rule is consistent with 35 U.S.C. 322(a)(4), which allows the Director to prescribe regulations concerning the information provided with the petition to institute a covered business patent review.

Proposed § 42.304(a) would provide that a petition under this section must demonstrate that the petitioner has grounds for standing. To establish standing, a petitioner, at a minimum, would be required to certify that the patent is available for covered business method patent review and that the petitioner meets the eligibility requirements of § 42.302. This proposed requirement attempts to ensure that a party has standing to file the covered business method patent review and would help prevent spuriously instituted reviews. Facially improper standing would be a basis for denying the petition without proceeding to the merits of the decision.

Proposed § 42.304(b) would require that the petition identify the precise relief requested for the claims challenged. Specifically, the proposed rule would require that the petition identify each claim being challenged, the specific grounds on which each

claim is challenged, how the claims are to be construed, why the claims as construed are unpatentable, and the exhibit numbers of the evidence relied upon with a citation to the portion of the evidence that is relied upon to support the challenge. This proposed rule is consistent with 35 U.S.C. 322(a)(3), which requires that the petition identify, in writing and with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence supporting the challenge. It is also consistent with 35 U.S.C. 322(a)(4), which allows the Director to require additional information as part of the petition. The proposed rule would provide an efficient means for identifying the legal and factual basis supporting a prima facie case of relief and would provide the patent owner with a minimum level of notice as to the basis for the challenge to the claims.

Proposed § 42.304(c) would provide that a petitioner seeking to correct clerical or typographical mistakes could file a motion to correct the mistakes. The proposed rule would also provide that the grant of such a motion would not alter the filing date of the petition.

## **Rulemaking Considerations**

**A. Administrative Procedure Act (APA):** This notice proposes rules of practice concerning the procedure for requesting a covered business method patent review, and the trial process after initiation of such a review. The changes being proposed in this notice do not change the substantive criteria of patentability. These proposed changes involve rules of agency practice and procedure and/or interpretive rules. See *Bachow Commc'ns Inc. v. FCC*, 237 F.3d 683, 690 (D.C. Cir. 2001) (rules governing an

application process are procedural under the Administrative Procedure Act); Inova Alexandria Hosp. v. Shalala, 244 F.3d 342, 350 (4th Cir. 2001) (rules for handling appeals were procedural where they did not change the substantive standard for reviewing claims); Nat'l Org. of Veterans' Advocates v. Sec'y of Veterans Affairs, 260 F.3d 1365, 1375 (Fed. Cir. 2001) (rule that clarifies interpretation of a statute is interpretive).

Accordingly, prior notice and opportunity for public comment are not required pursuant to 5 U.S.C. 553(b) or (c) (or any other law), and thirty-day advance publication is not required pursuant to 5 U.S.C. 553(d) (or any other law). See Cooper Techs. Co. v. Dudas, 536 F.3d 1330, 1336-37 (Fed. Cir. 2008) (stating that 5 U.S.C. 553, and thus 35 U.S.C. 2(b)(2)(B), does not require notice and comment rulemaking for “interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice”) (quoting 5 U.S.C. 553(b)(A)). The Office, however, is publishing these changes and the Initial Regulatory Flexibility Act analysis, below, for comment as it seeks the benefit of the public’s views on the Office’s proposed implementation of these provisions of the Leahy-Smith America Invents Act.

**B. Regulatory Flexibility Act:** The Office estimates that 50 petitions for covered business method patent review will be filed in fiscal year 2013. This will be the first fiscal year in which the review proceeding will be available for an entire fiscal year.

The estimated number of covered business method patent review petitions is based on the number of inter partes reexamination requests filed in fiscal year 2011 for patents having an original classification in class 705 of the United States Patent Classification System.

Class 705 is the classification for patents directed to data processing in the following areas: financial, business practice, management, or cost/price determination. See <http://www.uspto.gov/web/patents/classification/uspc705/sched705.pdf>.

The following is the class definition and description for Class 705:

This is the generic class for apparatus and corresponding methods for performing data processing operations, in which there is a significant change in the data or for performing calculation operations wherein the apparatus or method is uniquely designed for or utilized in the practice, administration, or management of an enterprise, or in the processing of financial data.

This class also provides for apparatus and corresponding methods for performing data processing or calculating operations in which a charge for goods or services is determined.

This class additionally provides for subject matter described in the two paragraphs above in combination with cryptographic apparatus or method.

Subclasses 705/300-348 were established prior to complete reclassification of all project documents. Documents that have not yet been reclassified have been placed in 705/1.1. Until reclassification is finished a complete search of 705/300-348 should include a search of 705/1.1. Once the project documents in 705/1.1 have been reclassified they will be moved to the appropriate subclasses and this note will be removed.

#### SCOPE OF THE CLASS

1. The arrangements in this class are generally used for problems relating to administration of an organization, commodities or financial transactions.
2. Mere designation of an arrangement as a “business machine” or a document as a “business form” or “business chart” without any particular

business function will not cause classification in this class or its subclasses.

3. For classification herein, there must be significant claim recitation of the data processing system or calculating computer and only nominal claim recitation of any external art environment. Significantly claimed apparatus external to this class, claimed in combination with apparatus under the class definition, which perform data processing or calculation operations are classified in the class appropriate to the external device unless specifically excluded therefrom.

4. Nominally claimed apparatus external to this class in combination with apparatus under the class definition is classified in this class unless provided for in the appropriate external class.

5. In view of the nature of the subject matter included herein, consideration of the classification schedule for the diverse art or environment is necessary for proper search.

See Classification Definitions (Feb. 2011) available at

<http://www.uspto.gov/web/patents/classification/uspc705/defs705.htm>.

Accordingly, patents subject to covered business method patent review are anticipated to be typically classifiable in Class 705. It is anticipated that the number of patents in Class 705 that do not qualify as covered business method patents would approximate the number of patents classified in other classes that do qualify.

The Office received 20 requests for inter partes reexamination of patents classified in Class 705 in fiscal year 2011. The Office in estimating the number of petitions for covered business method patent review to be higher than 20 requests due to an expansion of the grounds for which review may be requested including subject matter eligibility grounds, the greater coordination with litigation, and the provision that patents will be

eligible for the proceeding regardless of filing date of the application which resulted in the patent.

The Office has reviewed the entity status of patents for which inter partes reexamination was requested from October 1, 2000, to September 23, 2011. This data only includes filings granted a filing date in the particular year rather than filings in which a request was received in the year. The first inter partes reexamination was filed on July 27, 2001. A summary of that review is provided in Table 1 below. As shown by Table 1, patents known to be owned by a small entity represented 32.79% of patents for which inter partes reexamination was requested. Based on an assumption that the same percentage of patents owned by small entities will be subject to covered business method patent review, it is estimated that 16 petitions for covered business method patent review would be filed to seek review of patents owned by a small entity in fiscal year 2013, the first full fiscal year that these proceedings will be available.

Table 1:

| <u>Inter partes</u> Reexamination Requests<br>Filed with Parent Entity Type*                               |  |  |  |
|--|--|--|--|
| * Small entity status determined by reviewing preexamination small entity indicator for the parent patent. |  |  |  |
| Fiscal Year  | <u>Inter partes</u><br>Reexamination<br>Requests Filed | Number Filed<br>Where Parent<br>Patent Is Small<br>Entity Type | Percent Small<br>Entity Type of<br>Total |
| 2011   | 329  | 123  | 37.39%                                   |
| 2010   | 255  | 94   | 36.86%                                   |
| 2009   | 240  | 62   | 25.83%                                   |
| 2008   | 155  | 52   | 33.55%                                   |
| 2007   | 127  | 35   | 27.56%                                   |
| 2006   | 61   | 17   | 27.87%                                   |
| 2005   | 59   | 18   | 30.51%                                   |
| 2004   | 26   | 5  | 19.23%                                   |
| 2003   | 21   | 12   | 57.14%                                   |
| 2002   | 4  | 1  | 25.00%                                   |
| 2001   | 1  | 0  | 0.00%                                    |
|  | 1,278  | 419  | 32.79%                                   |

Based on the number of patents issued during fiscal years 1995 through 1999 that paid the small entity third stage maintenance fee, the number of patents issued during fiscal years 2000 through 2003 that paid the small entity second stage maintenance fee, the number of patents issued during fiscal years 2004 through 2007 that paid the first stage maintenance fee, and the number of patents issued during fiscal years 2008 through 2011

that paid a small entity issue fee, there are no less than 375,000 patents owned by small entities in force as of October 1, 2011.

Furthermore, the Office recognizes that there would be an offset to this number for patents that expire earlier than 20 years from their filing date due to a benefit claim to an earlier application or due to a filing of a terminal disclaimer. The Office likewise recognizes that there would be an offset in the opposite manner due to the accrual of patent term extension and adjustment. The Office, however, does not maintain data on the date of expiration by operation of a terminal disclaimer. Therefore, the Office has not adjusted the estimate of 375,000 patents owned by small entities in force as of October 1, 2011. While the Office maintains information regarding patent term extension and adjustment accrued by each patent, the Office does not collect data on the expiration date of patents that are subject to a terminal disclaimer. As such, the Office has not adjusted the estimated of 375,000 patents owned by small entities in force as of October 1, 2011, for accrual of patent term extension and adjustment, because in view of the incomplete terminal disclaimer data issue, would be incomplete and any estimate adjustment would be administratively burdensome. Thus, it is estimated that the number of small entity patents in force in fiscal year 2013 will be at least 375,000.

Based on the estimated number of patents in force, the number of small entity owned patents impacted by covered business method patent review in fiscal year 2013 (16 patents) would be less than 0.005% ( $16/375,000$ ) of all patents in force that are owned by

small entities. The USPTO nonetheless has undertaken an Initial Regulatory Flexibility Act Analysis of the proposed rule.

**1. Description of the Reasons That Action by the Office Is Being Considered:** On September 16, 2011, the Leahy-Smith America Invents Act was enacted into law (Pub. L. 112-29, 125 Stat. 284 (2011)). Section 18 of the Leahy-Smith America Invents Act provides for a transitional program for covered business method patents which will employ the standards and procedures of the post-grant review proceeding with a few exceptions. For the implementation, § 6(f) of the Leahy-Smith America Invents Act requires that the Director issue regulations to carry out chapter 32 of title 35, United States Code, within one year after the date of enactment. Pub. L. 112-29, §6(f), 125 Stat. 284, 311 (2011).

**2. Succinct Statement of the Objectives of, and Legal Basis for, the Proposed Rules:**

The proposed rules seek to implement covered business method patent review as authorized by the Leahy-Smith America Invents Act. The Leahy-Smith America Invents Act requires that the Director prescribe rules for the covered business method patent reviews that result in a final determination not later than one year after the date on which the Director notices the institution of a proceeding. The one-year period may be extended for not more than 6 months if good cause is shown. See 35 U.S.C. 326(a)(11). The Leahy-Smith America Invents Act also requires that the Director, in prescribing rules for covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and

the ability of the Office to complete timely the instituted proceedings. See 35 U.S.C. 326(b). Consistent with the time periods provided in 35 U.S.C. 326(a)(11), the proposed rules are designed to, except where good cause is shown to exist, result in a final determination by the Patent Trial and Appeal Board within one year of the notice of initiation of the review. This one-year review will enhance the effect on the economy, and improve the integrity of the patent system and the efficient administration of the Office.

**3. Description and Estimate of the Number of Affected Small Entities:** The Small Business Administration (SBA) small business size standards applicable to most analyses conducted to comply with the Regulatory Flexibility Act are set forth in 13 CFR 121.201. These regulations generally define small businesses as those with fewer than a specified maximum number of employees or less than a specified level of annual receipts for the entity's industrial sector or North American Industry Classification System (NAICS) code. As provided by the Regulatory Flexibility Act, and after consultation with the Small Business Administration, the Office formally adopted an alternate size standard as the size standard for the purpose of conducting an analysis or making a certification under the Regulatory Flexibility Act for patent-related regulations. See Business Size Standard for Purposes of United States Patent and Trademark Office Regulatory Flexibility Analysis for Patent-Related Regulations, 71 FR 67109 (Nov. 20, 2006), 1313 Off. Gaz. Pat. Office 60 (Dec. 12, 2006). This alternate small business size standard is SBA's previously established size standard that identifies the criteria entities must meet to be entitled to pay reduced patent fees. See 13 CFR 121.802. If patent applicants

identify themselves on a patent application as qualifying for reduced patent fees, the Office captures this data in the Patent Application Location and Monitoring (PALM) database system, which tracks information on each patent application submitted to the Office.

Unlike the SBA small business size standards set forth in 13 CFR 121.201, the size standard for USPTO is not industry-specific. The Office's definition of a small business concern for Regulatory Flexibility Act purposes is a business or other concern that:

(1) meets the SBA's definition of a "business concern or concern" set forth in 13 CFR 121.105; and (2) meets the size standards set forth in 13 CFR 121.802 for the purpose of paying reduced patent fees, namely an entity: (a) whose number of employees, including affiliates, does not exceed 500 persons; and (b) which has not assigned, granted, conveyed, or licensed (and is under no obligation to do so) any rights in the invention to any person who made it and could not be classified as an independent inventor, or to any concern which would not qualify as a non-profit organization or a small business concern under this definition. See Business Size Standard for Purposes of United States Patent and Trademark Office Regulatory Flexibility Analysis for Patent-Related Regulations, 71 FR at 67112 (Nov 20, 2006), 1313 Off. Gaz. Pat. Office at 63 (Dec. 12, 2006).

As discussed above, it is anticipated that 50 petitions for covered business method patent review will be filed in fiscal year 2013. The Office has reviewed the percentage of patents for which inter partes reexamination was requested from October 1, 2000 to

September 23, 2011. A summary of that review is provided in Table 1 above. As demonstrated by Table 1, patents known to be owned by a small entity represent 32.79% of patents for which inter partes reexamination was requested. Based on an assumption that the same percentage of patents owned by small entities will be subject to the new review proceedings, it is estimated that 16 patents owned by small entities would be affected by covered business method patent review.

The USPTO estimates that 2.5% of patent owners will file a request for adverse judgment prior to a decision to institute and that another 2.5% will file a request for adverse judgment or fail to participate after initiation. Specifically, an estimated 2 patent owners will file a request for adverse judgment or fail to participate after institution in covered business method proceedings. Based on the percentage of small entity owned patents that were the subject of inter partes reexamination (32.79%) from October 1, 2000 to September 23, 2011, it is estimated that 1 small entity will file such requests or fail to participate in covered business method patent review.

Under the proposed rules, prior to determining whether to institute a review, the patent owner may file an optional patent owner preliminary response to the petition. Given the new time period requirements to file review petitions relative to patent enforcement proceedings and the desire to avoid the cost of a trial and delays to related infringement actions, it is anticipated that 90% of petitions, other than those for which a request for adverse judgment is filed, will result in the filing of a patent owner preliminary response. Specifically, the Office estimates that 45 patent owners will file a preliminary response to

a covered business method petition. Based on the percentage of small entity owned patents that were the subject of inter partes reexamination (32.79%), it is estimated that 15 small entities will file a preliminary response to a covered business method patent review petition filed in fiscal year 2013.

Under the proposed rules, the Office will determine whether to institute a trial within three months after the earlier of: (1) the submission of a patent owner preliminary response, (2) the waiver of filing a patent owner preliminary response, or (3) the expiration of the time period for filing a patent owner preliminary response. If the Office decides not to institute a trial, the petitioner may file a request for reconsideration of the Office's decision. In estimating the number of requests for reconsideration, the Office considered the percentage of inter partes reexaminations that were denied relative to those that were ordered (24 divided by 342, or 7%) in fiscal year 2011. See Reexamination – FY 2011,

[http://www.uspto.gov/patents/Reexamination\\_operational\\_statistic\\_through\\_FY2011Q4.pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q4.pdf). The Office also considered the impact of: (1) patent owner preliminary responses under newly authorized in 35 U.S.C. 323, (2) the enhanced thresholds for instituting reviews set forth in 35 U.S.C. 324(a), which would tend to increase the likelihood of dismissing a petition for review, and (3) the more restrictive time period for filing a petition for review in 35 U.S.C. 325(b), which would tend to reduce the likelihood of dismissing a petition. Based on these considerations, it is estimated that 10% of the petitions for review (5 divided by 49) would be dismissed.

During fiscal year 2011, the Office issued 21 decisions following a request for reconsideration of a decision on appeal in inter partes reexamination. The average time from original decision to decision on reconsideration was 4.4 months. Thus, the decisions on reconsideration were based on original decisions issued from July 2010 until June 2011. During this time period, the Office mailed 63 decisions on appeals in inter partes reexamination. See BPAI Statistics – Receipts and Dispositions by Technology Center, <http://www.uspto.gov/ip/boards/bpai/stats/receipts/index.jsp> (monthly data). Based on the assumption that the same rate of reconsideration (21 divided by 63 or 33.333%) will occur, the Office estimates that 2 requests for reconsideration will be filed. Based on the percentage of small entity owned patents that were the subject of inter partes reexamination (32.79%), it is estimated that 1 small entity will file a request for a reconsideration of a decision dismissing the petition for post-grant or covered business method patent review filed in fiscal year 2013.

The Office reviewed motions, oppositions, and replies in a number of contested trial proceedings before the trial section of the Board. The review included determining whether the motion, opposition, and reply were directed to patentability grounds and non-priority non-patentability grounds. Based on the review, it is anticipated that covered business method patent reviews will have an average of 8.89 motions, oppositions, and replies per trial after institution. Settlement is estimated to occur in 20% of instituted trials at various points of the trial. In the trials that are settled, it is estimated that only 50% of the noted motions, oppositions, and replies would be filed.

After a trial has been instituted but prior to a final written decision, parties to a covered business method patent review may request an oral hearing. It is anticipated that 45 requests for oral hearings will be filed based on the number of requests for oral hearings in inter partes reexamination, the stated desirability for oral hearings during the legislative process, and the public input received prior to this notice of proposed rulemaking. Based on the percentage of small entity owned patents that were the subject of inter partes reexamination (32.79%), it is estimated that 15 small entities will file a request for oral hearing in the covered business method patent reviews instituted in fiscal year 2013.

Parties to a covered business method patent review may file requests to treat a settlement as business confidential, and request for adverse judgment. A written request to make a settlement agreement available may also be filed. Given the short time period set for conducting trials, it is anticipated that the alternative dispute resolution options will be infrequently used. The Office estimates that 2 requests to treat a settlement as business confidential, and 10 requests for adverse judgment, default adverse judgment, or settlement notices will be filed. The Office also estimates that 2 requests to make a settlement available will be filed. Based on the percentage of small entity owned patents that were the subject of inter partes reexamination (32.79%), it is estimated that 1 small entity will file a request to treat a settlement as business confidential and 3 small entities will file a request for adverse judgment, default adverse judgment notices, or settlement notices in the reviews instituted in fiscal year 2013.

Parties to a covered business method patent review may seek judicial review of the final decision of the Board. Historically, 33% of examiner's decisions in inter partes reexamination proceedings have been appealed to the Board. It is anticipated that 16% of final decisions of the Board would be appealed. The reduction in appeal rate is based on the higher threshold for institution, the focused process, and the experience of the Board in conducted contested cases. Therefore, it is estimated that 5 parties would seek judicial review of the final decisions of the Board in covered business method patent reviews instituted in fiscal year 2013. Furthermore, based on the percentage of small entity owned patents that were the subject of inter partes reexamination (32.79%), it is estimated that 2 small entities would seek judicial review of final decisions of the Board in the covered business method patent reviews instituted in fiscal year 2013.

#### **4. Description of the Reporting, Recordkeeping, and Other Compliance**

##### **Requirements of the Proposed Rule, Including an Estimate of the Classes of Small Entities Which Will Be Subject to the Requirement and the Type of Professional**

**Skills Necessary for Preparation of the Report or Record:** Covered business method patent reviews would be limited to business method patents that are not patents for technological inventions. Under the proposed rules, a person who is not the owner of a patent may file a petition to institute a review of the patent, with a few exceptions. Given this, it is anticipated that a petition for review is likely to be filed by an entity practicing in the business method field for covered business methods.

Preparation of the petition would require analyzing the patent claims, locating evidence supporting arguments of unpatentability, and preparing the petition seeking review of the patent. This notice provides the proposed procedural requirements that are common for the new trials. Additional requirements are provided in contemporaneous trial specific proposed rulemaking. The procedures for petitions to institute a covered business method patent review are proposed in §§ 42.5, 42.6, 42.8, 42.11, 42.13, 42.20, 42.21, 42.22, 42.24(a)(3), 42.63, 42.65, 42.203, 42.205, and 42.302 through 42.304.

The skills necessary to prepare a petition for review and to participate in a trial before the Patent Trial and Appeal Board would be similar to those needed to prepare a request for inter partes reexamination, to represent a party in an inter partes reexamination, and to represent a party in an interference proceeding before the Patent Trial and Appeal Board. The level of skill is typically possessed by a registered patent practitioner having devoted professional time to the particular practice area, typically under the supervision of a practitioner skilled in the particular practice area. Where authorized by the Board, a non-registered practitioner may be admitted pro hac vice, on a case-by-case basis based on the facts and circumstances of the trial and party, as well as the skill of the practitioner.

The cost of preparing a petition for covered business method patent review is estimated to be 33.333% higher than the cost of preparing an inter partes review petition because the petition for covered business method patent review may seek to institute a proceeding on additional grounds such as subject matter eligibility. The American Intellectual Property Law Association's AIPLA Report of the Economic Survey 2011 reported that the average

cost of preparing a request for inter partes reexamination was \$46,000. Based on the Office's consideration of the work required to prepare and file such a request, the Office estimates that the cost of preparing a petition for covered business method patent review would be \$61,333 (including expert costs).

The filing of a petition for review would also require payment by the petitioner of the appropriate petition fee to recover the aggregate cost for providing the review. The appropriate petition fee would be determined by the number of claims for which review is sought and the type of review. The proposed fees for filing a petition for covered business method patent review would be: \$35,800 to request review of 20 or fewer claims, \$44,750 to request review of 21 to 30 claims, \$53,700 to request review of 31 to 40 claims, \$71,600 to request review of 41 to 50 claims, \$89,500 to request review of 51 to 60 claims, and an additional \$35,800 to request review of additional groups of 10 claims.

In setting fees, the estimated information technology cost to establish the process and maintain the filing and storage system through 2017 is to be recovered by charging each petition \$2,270. The remainder of the fee is to recover the cost for judges to determine whether to institute a review and conduct the review, together with a proportionate share of indirect costs, e.g., rent, utilities, additional support, and administrative costs. Based on the direct and indirect costs, the fully burdened cost per hour for judges to decide a petition and conduct a review is estimated to be \$258.32.

For a petition for covered business method patent review with 20 or fewer challenged claims, it is anticipated that 121 hours of judge time would be required. For 21 to 30 challenged claims, an additional 30 hours is anticipated for a total of 151 hours of judge time. For 31 to 40 challenged claims, an additional 60 hours is anticipated for a total of 181 hours of judge time. For 41 to 50 challenged claims, an additional 121 hours is anticipated for a total of 242 hours of judge time. For 51 to 60 challenged claims, an additional 181 hours is anticipated for a total of 302 hours of judge time. The increase in adjustment reflects the added complexity that typically occurs as more claims are in dispute.

The proposed rules would permit the patent owner to file a preliminary response to the petition setting forth the reasons why no review should be initiated. The procedures for a patent owner to file a preliminary response as an opposition are proposed in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.107, 42.120, 42.207, and 42.220. The patent owner is not required to file a preliminary response. The Office estimates that the preparation and filing of a patent owner preliminary response would require 100 hours of professional time and cost \$34,000 (including expert costs). The AIPLA Report of the Economic Survey 2011 reported that the average cost for inter partes reexamination including of the request (\$46,000), the first patent owner response, and third party comments was \$75,000 (see I-175) and the median billing rate for professional time of \$340 per hour for attorneys in private firms (see 8). Thus, the cost of the first patent owner reply and the third party statement is \$29,000. The Office finds these costs to be reasonable estimates. The patent

owner reply and third party statement, however, occur after the examiner has made an initial threshold determination and made only the appropriate rejections. Accordingly, it is anticipated that filing a patent owner preliminary response to a petition for review would cost more than the initial reply in a reexamination, or an estimated \$34,000 (including expert costs).

The Office will determine whether to institute a trial within three months after the earlier of: (1) the submission of a patent owner preliminary response, (2) the waiver of filing a patent owner preliminary response, or (3) the expiration of the time period for filing a patent owner preliminary response. If the Office decides not to institute a trial, the petitioner may file a request for reconsideration of the Office's decision. It is anticipated that a request for reconsideration will require 80 hours of professional time to prepare and file, for a cost of \$27,200. This estimate is based on the complexity of the issues and desirability to avoid time bars imposed by 35 U.S.C. 325(b).

Following institution of a trial, the parties may be authorized to file various motions, e.g., motions to amend and motions for additional discovery. Where a motion is authorized, an opposition may be authorized, and where an opposition is authorized, a reply may be authorized. The procedures for filing a motion are proposed in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(5), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.221, and 42.223. The procedures for filing an opposition are proposed in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.207, and 42.220. The procedures for filing a reply are proposed in §§ 42.6, 42.8, 42.11, 42.13,

42.21, 42.23, 42.24(c), 42.51, 42.52, 42.53, 42.54, 42.63, and 42.65. As discussed previously, the Office estimates that the average covered business method patent review will have 8.89 motions, oppositions, and replies after institution.

The AIPLA Report of the Economic Survey 2011 reported that the average cost in contested cases before the trial section of the Board prior to the priority phase was \$322,000 per party. Because of the overlap of issues in patentability grounds, it is expected that the cost per motion will decline as more motions are filed in a proceeding. It is estimated that a motion, opposition, or reply in a derivation would cost \$34,000, which is estimated by dividing the total public cost for all motions in current contested cases divided by the estimated number of motions in derivations under 35 U.S.C. 135, as amended. The cost of a motion, opposition, or reply in a covered business method patent review is estimated at \$44,200 (including expert costs), reflecting the reduction in overlap between motions relative to derivation. Based on the work required to file and prepare such briefs, the Office considers the reported cost as a reasonable estimate.

After a trial has been instituted but prior to a final written decision, parties to a covered business method patent review may request an oral hearing. The procedure for filing requests for oral argument is proposed in § 42.70. The AIPLA Report of the Economic Survey 2011 reported that the third quartile cost of an ex parte appeal with an oral argument is \$12,000, while the third quartile cost of an ex parte appeal without an oral argument is \$6,000. In view of the reported costs, which the Office finds reasonable, and the increased complexity of an oral hearing with multiple parties, it is estimated that the

cost per party for oral hearings would be \$6,800 or \$800 more than the reported third quartile cost for an ex parte oral hearing.

Parties to a covered business method patent review may file requests to treat a settlement as business confidential, or file a request for adverse judgment. A written request to make a settlement agreement available may also be filed. The procedures to file requests that a settlement be treated as business confidential are proposed in § 42.74(b). The procedures to file requests for adverse judgment are proposed in § 42.73(b). The procedures to file requests to make a settlement agreement available are proposed in § 42.74(c)(2). It is anticipated that requests to treat a settlement as business confidential will require 2 hours of professional time or \$680. It is anticipated that requests for adverse judgment will require 1 hour of professional time or \$340. It is anticipated that requests to make a settlement agreement available will require 1 hour of professional time or \$340. The requests to make a settlement agreement available will also require payment of a fee of \$400 specified in proposed § 42.15(d).

Parties to a review proceeding may seek judicial review of the judgment of the Board. The procedures to file notices of judicial review of a Board decision, including notices of appeal and notices of election provided for in 35 U.S.C. 141, 142, 145, and 146, are proposed in §§ 90.1 through 90.3. The submission of a copy of a notice of appeal or a notice of election is anticipated to require 6 minutes of professional time at a cost of \$34.

**5. Description of Any Significant Alternatives to the Proposed Rules Which Accomplish the Stated Objectives of Applicable Statutes and Which Minimize Any Significant Economic Impact of the Rules on Small Entities:**

**Size of petitions and motions:** The Office considered whether to apply a page limit and what an appropriate page limit would be. The Office does not currently have a page limit on inter partes reexamination requests. The inter partes reexamination requests from October 1, 2010 to June 30, 2011, averaged 246 pages. Based on the experience of processing inter partes reexamination requests, the Office finds that the very large size of the requests has created a burden on the Office that hinders the efficiency and timeliness of processing the requests, and creates a burden on patent owners. The quarterly reported average processing time from the filing of a request to the publication of a reexamination certificate ranged from 28.9 months to 41.7 months in fiscal year 2009, from 29.5 months to 37.6 months in fiscal year 2010, and from 31.9 to 38.0 months in fiscal year 2011. See Reexaminations – FY 2011, [http://www.uspto.gov/patents/Reexamination\\_operational\\_statistic\\_through\\_FY2011Q4.pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q4.pdf).

By contrast, the Office has a page limit on the motions filed in contested cases, except where parties are specifically authorized to exceed the limitation. The typical contested case proceeding is subject to a standing order that sets a 50 page limit for motions and oppositions on priority, a 15 page limit for miscellaneous motions (§ 41.121(a)(3)) and oppositions (§ 41.122), and a 25 page limit for other motions (§ 41.121(a)(2)) and

oppositions to other motions. In typical proceedings, replies are subject to a 15 page limit if directed to priority, 5 page limit for miscellaneous issues, and 10 page limit for other motions. The average contested case was terminated in 10.1 months in fiscal year 2009, in 12 months in fiscal year 2010, and 9 months in fiscal year 2011. The percentage of contested cases terminated within 2 years was 93.7% in fiscal year 2009, 88.0% in fiscal year 2010, and 94.0% in fiscal year 2011. See BPAI Statistics – Performance Measures, <http://www.uspto.gov/ip/boards/bpai/stats/perform/index.jsp>.

Comparing the average time period for terminating a contested case, 10.0 to 12.0 months, with the average time period, during fiscal years 2009 through 2011, for completing an inter partes reexamination, 28.9 to 41.7 months, indicates that the average interference takes from 24% (10.0/41.7) to 42% (12.0/28.9) of the time of the average inter partes reexamination. While several factors contribute to the reduction in time, limiting the size of the requests and motions is considered a significant factor. Proposed § 42.24 would provide page limits for petitions, motions, oppositions, and replies. 35 U.S.C. 326(b) provides considerations that are to be taken into account when prescribing regulations including the integrity of the patent system, the efficient administration of the Office, and the ability to complete timely the trials. The page limits proposed in these rules are consistent with these considerations.

Federal courts routinely use page limits in managing motions practice as “[e]ffective writing is concise writing.” Spaziano v. Singletary, 36 F.3d 1028, 1031 n.2 (11th Cir. 1994). Many district courts restrict the number of pages that may be filed in a motion

including, for example, the District of Delaware, the District of New Jersey, the Eastern District of Texas, the Northern, Central, and Southern Districts of California, and the Eastern District of Virginia.

Federal courts have found that page limits ease the burden on both the parties and the courts, and patent cases are no exception. Eolas Techs., Inc. v. Adobe Sys., Inc., No. 6:09-CV-446, at 1 (E.D. Tex. Sept. 2, 2010) (“The Local Rules’ page limits ease the burden of motion practice on both the Court and the parties.”); Blackboard, Inc. v. Desire2Learn, Inc., 521 F. Supp. 2d 575, 576 (E.D. Tex. 2007) (The parties “seem to share the misconception, popular in some circles, that motion practice exists to require federal judges to shovel through steaming mounds of pleonastic arguments in Herculean effort to uncover a hidden gem of logic that will ineluctably compel a favorable ruling. Nothing could be farther from the truth.”); Broadwater v. Heidtman Steel Prods., Inc., 182 F. Supp. 2d 705, 710 (S.D. Ill. 2002) (“Counsel are strongly advised, in the future, to not ask this Court for leave to file any memoranda (supporting or opposing dispositive motions) longer than 15 pages. The Court has handled complicated patent cases and employment discrimination cases in which the parties were able to limit their briefs supporting and opposing summary judgment to 10 or 15 pages.” (Emphasis omitted)).

The Board’s contested cases experience with page limits in motions practice is consistent with that of the federal courts. The Board’s use of page limits has shown it to be beneficial without being unduly restrictive for the parties. Page limits have encouraged

the parties to focus on dispositive issues, easing the burden of motions practice on the parties and on the Board.

The Board's contested cases experience with page limits is informed by its use of different approaches over the years. In the early 1990s, page limits were not routinely used for motions, and the practice suffered from lengthy and unacceptable delays. To reduce the burden on the parties and on the Board and thereby reduce the time to decision, the Board instituted page limits in the late 1990s for every motion. Page limit practice was found to be effective in reducing the burdens on the parties and improving decision times at the Board. In 2006, the Board revised the page limit practice and allowed unlimited findings of fact and generally limited the number of pages containing argument. Due to abuses of the system, the Board recently reverted back to page limits for the entire motion (both argument and findings of fact).

The Board's current page limits are consistent with the 25 page limits in the Northern, Central, and Southern Districts of California, and the Middle District of Florida and exceed the limits in the District of Delaware (20), the Northern District of Illinois (15), the District of Massachusetts (20), the Eastern District of Michigan (20), the Southern District of Florida (20), and the Southern District of Illinois (20).

In a typical proceeding before the Board, a party may be authorized to file a single motion for unpatentability based on prior art, a single motion for unpatentability based upon failure to comply with 35 U.S.C. 112, lack of written description, and/or

enablement, and potentially another motion for lack of compliance with 35 U.S.C. 101, although a 35 U.S.C. 101 motion may be required to be combined with the 35 U.S.C. 112 motion. Each of these motions is currently limited to 25 pages in length, unless good cause is shown that the page limits are unduly restrictive for a particular motion.

A petition requesting the institution of a trial proceeding would be similar to motions currently filed with the Board. Specifically, petitions to institute a trial seek a final written decision that the challenged claims are unpatentable, where derivation is a form of unpatentability. Accordingly, a petition to institute a trial based on prior art would, under current practice, be limited to 25 pages, and by consequence, a petition raising unpatentability based on prior art and unpatentability under 35 U.S.C. 101 and/or 112 would be limited to 50 pages.

Under the proposed rules, a covered business method patent review petition would be based upon most grounds identified in 35 U.S.C. 321(b), e.g., failure to comply with 35 U.S.C. 101, 102 (based on certain references), 103, and 112 (except best mode). Under current practice, a party would be limited to filing two or three motions, each limited to 25 pages, for a maximum of 75 pages. Where there is more than one motion for unpatentability based upon different statutory grounds, the Board's experience is that the motions contain similar discussions of technology and claim constructions. Such overlap is unnecessary where a single petition for unpatentability is filed. Thus, the proposed 70 page limit is considered sufficient in all but exceptional cases.

The proposed rule would provide that petitions to institute a trial must comply with the stated page limits, but may be accompanied by a motion that seeks to waive the page limits. The petitioner must show in the motion how a waiver of the page limits is in the interests of justice. A copy of the desired non-page limited petition must accompany the motion. Generally, the Board would decide the motion prior to deciding whether to institute the trial.

Current Board practice provides a limit of 25 pages for other motions and 15 pages for miscellaneous motions. The Board's experience is that such page limits are sufficient for the parties filing them and do not unduly burden the opposing party or the Board.

Petitions to institute a trial would generally replace the current practice of filing motions for unpatentability, as most motions for relief are expected to be similar to the current interference miscellaneous motion practice. Accordingly, the proposed 15 page limit is considered sufficient for most motions but may be adjusted where the limit is determined to be unduly restrictive for the relief requested.

Proposed § 42.24(b) would provide page limits for oppositions filed in response to motions. Current contested cases practice provides an equal number of pages for an opposition as its corresponding motion. This is generally consistent with motions practice in federal courts. The proposed rule would continue the current practice.

Proposed § 42.24(c) would provide page limits for replies. Current contested cases practice provides a 15 page limit for priority motion replies, a 5 page limit for

miscellaneous (procedural) motion replies, and a 10 page limit for all other motions. The proposed rule is consistent with current contested case practice for procedural motions. The proposed rule would provide a 15 page limit for reply to petitions requesting a trial, which the Office believes is sufficient based on current practice. Current contested cases practice has shown that such page limits do not unduly restrict the parties and, in fact, have provided sufficient flexibility to parties to not only reply to the motion but also help to focus on the issues. Thus, it is anticipated that default page limits would minimize the economic impact on small entities by focusing on the issues in the trials.

The Leahy-Smith America Invents Act requires that the Director, in prescribing rules for covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete timely the instituted proceedings. See 35 U.S.C. 326(b). In view of the actual results of the duration of proceedings in inter partes reexamination (without page limits) and contested cases (with page limits), proposing procedures with reasonable page limits would be consistent with the objectives set forth in the Leahy-Smith America Invents Act. Based on our experience on the time needed to complete a non-page limited proceeding, the option of non-page limited proceedings was not adopted.

**Fee Setting:** 35 U.S.C. 321(a) requires the Director to establish fees to be paid by the person requesting the review in such amounts as the Director determines to be reasonable, considering the aggregate costs of the review. In contrast to current 35

U.S.C. 311(b) and 312(c), the Leahy-Smith America Invents Act requires the Director to establish more than one fee for reviews based on the total cost of performing the reviews, and does not provide for refund of any part of the fee when the Director determine that the review should not be initiated.

35 U.S.C. 322(a)(1) further requires that the fee established by the Director under 35 U.S.C. 321 accompany the petition on filing. Accordingly, in interpreting the fee setting authority in 35 U.S.C. 321(a), it is reasonable that the Director should set a number of fees for filing a petition based on the anticipated aggregate cost of conducting the review depending on the complexity of the review, and require payment of the fee upon filing of the petition.

Based on experience with contested cases and inter partes reexamination proceedings, the following characteristics of requests were considered as potential factors for fee setting as each would likely impact the cost of providing the new services. The Office also considered the relative difficulty in administrating each option in selecting the characteristics for which different fees should be paid for requesting review.

I. Adopted Option. Number of claims for which review is requested. The number of claims often impacts the complexity of the request and increases the demands placed on the deciding officials. Cf. In re Katz Interactive Call Processing Patent Litig., 639 F.3d 1303, 1309 (Fed. Cir. 2011) (limiting number of asserted claims is appropriate to efficiently manage a case). Moreover, the number of claims for which review is

requested can be easily determined and administered, which avoids delays in the Office and the impact on the economy or patent system that would occur if an otherwise meritorious request is refused due to improper fee payment. Any subsequent petition would be time barred in view 35 U.S.C. 325.

II. Alternative Option I. Number of grounds for which review is requested.

The Office has experience with large numbers of cumulative grounds being presented in inter partes reexaminations which often add little value to the proceedings. Allowing for a large number of grounds to be presented on payment of an additional fee(s) is not favored. Determination of the number of grounds in a request may be contentious and difficult and may result in a large amount of high-level petition work. As such, the option would have a negative impact on small entities. Moreover, interferences instituted in the 1980s and early 1990s suffered from this problem as there was no page limit for motions and the parties had little incentive to focus the issues for decision. The resulting interference records were often a collection of disparate issues and evidence. This led to lengthy and unwarranted delays in deciding interference cases as well as increased costs for parties and the Office. Accordingly, this alternative is inconsistent with objectives of the Leahy-Smith America Invents Act that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete the instituted proceedings.

III. Alternative Option II. Pages of argument. The Office has experience with large requests in inter partes reexamination in which the merits of the proceedings could have been resolved in a shorter request. Allowing for unnecessarily large requests on payment of an additional fee(s) is not favored. Moreover, determination of what should be counted as “argument” as compared with “evidence” has often proven to be contentious and difficult as administered in the current inter partes reexamination appeal process.

In addition, the trial section of the Board recently experimented with motions having a fixed page limit for the argument section and an unlimited number of pages for the statement of facts. Unlimited pages for the statement of facts led to a dramatic increase in the number of alleged facts and pages associated with those facts. For example, one party used approximately 10 pages for a single “fact” that merely cut and pasted a portion of a declarant’s cross-examination. Based upon the trial section’s experience with unlimited pages of facts, the Board recently reverted back to a fixed page limit for the entire motion (argument and facts). Accordingly, this alternative is inconsistent with objectives of the Leahy-Smith America Invents Act that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete timely the instituted proceedings.

IV. Alternative Option III. The Office considered an alternative fee setting regime in which fees would be charged at various steps in the review process, a first fee

on filing of the petition, a second fee if instituted, a third fee on filing a motion in opposition to amended claims, etc. The alternative fee setting regime would hamper the ability of the Office to complete timely reviews, would result in dismissal of pending proceedings with patentability in doubt due to non-payment of required fees by third parties, and would be inconsistent with 35 U.S.C. 322 that requires the fee established by the Director be paid at the time of filing the petition. Accordingly, this alternative is inconsistent with objectives of the Leahy-Smith America Invents Act that the Director, in prescribing rules for covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete timely the instituted proceedings.

V. Alternative Option IV. The Office considered setting reduced fees for small and micro entities and to provide refunds if a review is not instituted. The Office may set the fee to recover the cost of providing the services under 35 U.S.C. 41(d)(2)(a). Fees set under this authority are not reduced for small entities, see 35 U.S.C. 42(h)(1), as amended. Moreover, the Office does not have authority to refund fees that were not paid by mistake or in excess of that owed. See 35 U.S.C. 42(d).

**Discovery:** The Office considered a procedure for discovery similar to the one available during district court litigation. Discovery of that scope has been criticized sharply, particularly when attorneys use discovery tools as tactical weapons, which hinder the “just, speedy, and inexpensive determination of every action and proceedings.” See Introduction to An E-Discovery Model Order available at

[http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery\\_Model\\_Order.p](http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf)

[df](#). Accordingly, this alternative would have been inconsistent with objectives of the Leahy-Smith America Invents Act that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete timely the instituted proceedings.

Additional discovery increases trial costs and increases the expenditures of time by the parties and the Board. To promote effective discovery, the proposed rule would require a showing of good cause to authorize additional requested discovery. To show good cause, a party must make a particular and specific demonstration of fact. The moving party must also show that it was fully diligent in seeking discovery, and that there is no undue prejudice to the non-moving party.

The Office has proposed a default scheduling order to provide limited discovery as a matter of right and also the ability to seek additional discovery on a case-by-case basis. In weighing the need for additional discovery, should a request be made, the economic impact on the opposing party would be considered which would tend to limit additional discovery where a party is a small entity.

**Pro Hac Vice:** The Office considered whether to allow counsel to appear pro hac vice. In certain cases, highly skilled, but non-registered, attorneys have appeared satisfactorily before the Board in contested cases. The Board may recognize counsel pro hac vice

during a proceeding upon a showing of good cause. Proceedings before the Office can be technically complex. Consequently, the grant of a motion to appear pro hac vice is a discretionary action taking into account the specifics of the proceedings. Similarly, the revocation of pro hac vice is a discretionary action taking into account various factors, including incompetence, unwillingness to abide by the Office's Rules of Professional Conduct, prior findings of misconduct before the Office in other proceedings, and incivility.

The Board's past practice has required the filing of a motion by a registered patent practitioner seeking pro hac vice representation based upon a showing of: (1) how qualified the unregistered practitioner is to represent the party in the proceeding when measured against a registered practitioner, and, (2) whether the party has a genuine need to have the particular unregistered practitioner represent it during the proceeding. This practice has proven effective in the limited number of contested cases where such requests have been granted. The proposed rule, if adopted, would allow for this practice in the new proceedings authorized by the Leahy-Smith America Invents Act.

The proposed rules would provide a limited delegation to the Board under 35 U.S.C. 2(b)(2) and 32 to regulate the conduct of counsel in Board proceedings. The proposed rule would delegate to the Board the authority to conduct counsel disqualification proceedings while the Board has jurisdiction over a proceeding. The rule would also delegate to the Chief Administrative Patent Judge the authority to make final a decision to disqualify counsel in a proceeding before the Board for the purposes of judicial review.

This delegation would not derogate from the Director the prerogative to make such decisions, nor would it prevent the Chief Administrative Patent Judge from further delegating authority to an administrative patent judge.

The Office considered broadly permitting practitioners not registered to practice by the Office to represent parties in trial as well as categorically prohibiting such practice. A prohibition on the practice would be inconsistent with the Board's experience, and more importantly, might result in increased costs particularly where a small entity has selected its district court litigation team for representation before the Board and has a patent review filed after litigation efforts have commenced. Alternatively, broadly making the practice available would create burdens on the Office in administering the trials and in completing the trial within the established time frame, particularly if the selected practitioner does not have the requisite skill. In weighing the desirability of admitting a practitioner pro hac vice, the economic impact on the party in interest would be considered which would tend to increase the likelihood that a small entity could be represented by a non-registered practitioner. Accordingly, the alternatives to eliminate pro hac vice practice or to permit it more broadly would have been inconsistent with objectives of the Leahy-Smith America Invents Act that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete timely the instituted proceedings.

**Threshold for Instituting a Review:** The Office considered whether the threshold for instituting a review could be set as low as or lower than the threshold for ex parte reexamination. This alternative could not be adopted in view of the statutory requirements in 35 U.S.C. 324.

**Default Electronic Filing:** The Office considered a paper filing system and a mandatory electronic filing system (without any exceptions) as alternatives to the proposed requirement that all papers are to be electronically filed, unless otherwise authorized.

Based on the Office's experience, a paper based filing system increases delay in processing papers, delay in public availability, and the chance that a paper may be misplaced or made available to an improper party if confidential. Accordingly, the alternative of a paper based filing system would have been inconsistent with objectives of the Leahy-Smith America Invent Act that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete timely the instituted proceedings.

An electronic filing system (without any exceptions) that is rigidly applied would result in unnecessary cost and burdens, particularly where a party lacks the ability to file electronically. By contrast, if the proposed option is adopted, it is expected that the entity size and sophistication would be considered in determining whether alternative filing methods would be authorized.

**6. Identification, to the Extent Practicable, of All Relevant Federal Rules Which May Duplicate, Overlap, or Conflict With the Proposed Rules:**

37 CFR 1.99 provides for the submission of information after publication of a patent application during examination by third parties.

37 CFR 1.171-1.179 provide for applications to reissue a patent to correct errors, including where a claim in a patent is overly broad.

37 CFR 1.291 provides for the protest against the issuance of a patent during examination.

37 CFR 1.321 provides for the disclaimer of a claim by a patentee.

37 CFR 1.501 and 1.502 provide for ex parte reexamination of patents. Under these rules, a person may submit to the Office prior art consisting of patents or printed publications that are pertinent to the patentability of any claim of a patent, and request reexamination of any claim in the patent on the basis of the cited prior art patents or printed publications. Consistent with 35 U.S.C. 302-307, ex parte reexamination rules provide a different threshold for initiation, require the proceeding to be conducted by an examiner with a right of appeal to the Patent Trial and Appeal Board, and allow for limited participation by third parties.

37 CFR 1.902-1.997 provide for inter partes reexamination of patents. Similar to ex parte reexamination, inter partes reexamination provides a procedure in which a third party may request reexamination of any claim in a patent on the basis of the cited prior art patents and printed publication. The inter partes reexamination practice will be eliminated, except for requests filed before the effective date, September 16, 2012. See § 6(c)(3)(C) of the Leahy-Smith America Invents Act.

Other countries have their own patent laws, and an entity desiring a patent in a particular country must make an application for patent in that country, in accordance with the applicable law. Although the potential for overlap exists internationally, this cannot be avoided except by treaty (such as the Paris Convention for the Protection of Industrial Property, or the Patent Cooperation Treaty (PCT)). Nevertheless, the Office believes that there are no other duplicative or overlapping foreign rules.

**C. Executive Order 12866 (Regulatory Planning and Review):** This rulemaking has been determined to be significant for purposes of Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).

Based on the petition and other filing requirements for initiating a review proceeding, the USPTO initially estimates the burden of the proposed rules on the public to be \$22,761,410 in fiscal year 2013, which represents the sum of the estimated total annual

(hour) respondent cost burden (\$20,405,610) plus the estimated total annual non-hour respondent cost burden (\$2,355,800) provided in Part O, Section II, of this notice, infra.

The USPTO expect several benefits to flow from the Leahy-Smith America Invents Act and these proposed rules. It is anticipated that the proposed rules will reduce the time for reviewing patents at the USPTO. Specifically, 35 U.S.C. 326(a) provides that the Director prescribe regulations requiring a final determination by the Board within one year of initiation, which may be extended for up to six months for good cause. In contrast, currently for inter partes reexamination, the average time from the filing to the publication of a certificate ranged from 28.9 to 41.7 months during fiscal years 2009-2011. See Reexaminations – FY 2011, [http://www.uspto.gov/patents/Reexamination\\_operational\\_statistic\\_through\\_FY2011Q4.pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q4.pdf)

Likewise, it is anticipated that the proposed rules will minimize duplication of efforts. In particular, the Leahy-Smith America Invents Act provides more coordination between district court infringement litigation and covered business method patent review to reduce duplication of efforts and costs.

The AIPLA Report of the Economic Survey 2011 reports that the total cost of patent litigation where the damages at risk are less than \$1,000,000 average \$916,000, where the damages at risk are between \$1,000,000 and \$25,000,000 average \$2,769,000, and where the damages at risk exceed \$25,000,000 average \$6,018,000. There may be a significant

reduction in overall burden if, as intended, the Leahy-Smith America Invents Act and the proposed rules reduce the overlap between review at the USPTO of issued patents and validity determination during patent infringement actions. Data from the United States district courts reveals that 2,830 patent cases were filed in 2006, 2,896 in 2007, 2,909 in 2008, 2,792 in 2009, and 3,301 in 2010. See U.S. Courts, Judicial Business of the United States Courts,

[www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2010/appendices/C02ASep10.pdf](http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2010/appendices/C02ASep10.pdf) (last visited Nov. 11, 2011) (hosting annual reports for 1997 through 2010). Thus, the Office estimates that no more than 3,300 patent cases (the highest number of yearly filings between 2006 and 2010 rounded to the nearest 100) are likely to be filed annually. The aggregate burden estimate above (\$22,761,410) was not offset by a reduction in burden based on improved coordination between district court patent litigation and the new inter partes review proceedings.

**D. Executive Order 13563 (Improving Regulation and Regulatory Review):** The Office has complied with Executive Order 13563. Specifically, the Office has, to the extent feasible and applicable: (1) made a reasoned determination that the benefits justify the costs of the rule; (2) tailored the rule to impose the least burden on society consistent with obtaining the regulatory objectives; (3) selected a regulatory approach that maximizes net benefits; (4) specified performance objectives; (5) identified and assessed available alternatives; (6) involved the public in an open exchange of information and perspectives among experts in relevant disciplines, affected stakeholders in the private sector, and the public as a whole, and provided online access to the rulemaking docket;

(7) attempted to promote coordination, simplification, and harmonization across government agencies and identified goals designed to promote innovation; (8) considered approaches that reduce burdens and maintain flexibility and freedom of choice for the public; and (9) ensured the objectivity of scientific and technological information and processes.

**E. Executive Order 13132 (Federalism):** This rulemaking does not contain policies with federalism implications sufficient to warrant preparation of a Federalism Assessment under Executive Order 13132 (Aug. 4, 1999).

**F. Executive Order 13175 (Tribal Consultation):** This rulemaking will not: (1) have substantial direct effects on one or more Indian tribes; (2) impose substantial direct compliance costs on Indian tribal governments; or (3) preempt tribal law. Therefore, a tribal summary impact statement is not required under Executive Order 13175 (Nov. 6, 2000).

**G. Executive Order 13211 (Energy Effects):** This rulemaking is not a significant energy action under Executive Order 13211 because this rulemaking is not likely to have a significant adverse effect on the supply, distribution, or use of energy. Therefore, a Statement of Energy Effects is not required under Executive Order 13211 (May 18, 2001).

**H. Executive Order 12988 (Civil Justice Reform):** This rulemaking meets applicable standards to minimize litigation, eliminate ambiguity, and reduce burden as set forth in sections 3(a) and 3(b)(2) of Executive Order 12988 (Feb. 5, 1996). This rulemaking carries out a statute designed to lessen litigation. See H.R. Rep. No. 112-98, at 45-48.

**I. Executive Order 13045 (Protection of Children):** This rulemaking does not concern an environmental risk to health or safety that may disproportionately affect children under Executive Order 13045 (Apr. 21, 1997).

**J. Executive Order 12630 (Taking of Private Property):** This rulemaking will not effect a taking of private property or otherwise have taking implications under Executive Order 12630 (Mar. 15, 1988).

**K. Congressional Review Act:** Under the Congressional Review Act provisions of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801-808), prior to issuing any final rule, the United States Patent and Trademark Office will submit a report containing the final rule and other required information to the U.S. Senate, the U.S. House of Representatives, and the Comptroller General of the Government Accountability Office. The changes in this notice are not expected to result in an annual effect on the economy of 100 million dollars or more, a major increase in costs or prices, or significant adverse effects on competition, employment, investment, productivity, innovation, or the ability of United States-based enterprises to compete with foreign

based enterprises in domestic and export markets. Therefore, this notice is not expected to result in a “major rule” as defined in 5 U.S.C. 804(2).

**L. Unfunded Mandates Reform Act of 1995:** The changes proposed in this notice do not involve a Federal intergovernmental mandate that will result in the expenditure by State, local, and tribal governments, in the aggregate, of 100 million dollars (as adjusted) or more in any one year, or a Federal private sector mandate that will result in the expenditure by the private sector of 100 million dollars (as adjusted) or more in any one year, and will not significantly or uniquely affect small governments. Therefore, no actions are necessary under the provisions of the Unfunded Mandates Reform Act of 1995. See 2 U.S.C. 1501-1571.

**M. National Environmental Policy Act:** This rulemaking will not have any effect on the quality of the environment and is thus categorically excluded from review under the National Environmental Policy Act of 1969. See 42 U.S.C. 4321-4370h.

**N. National Technology Transfer and Advancement Act:** The requirements of section 12(d) of the National Technology Transfer and Advancement Act of 1995 (15 U.S.C. 272 note) are not applicable because this rulemaking does not contain provisions which involve the use of technical standards.

**O. Paperwork Reduction Act:** The Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3549) requires that the USPTO consider the impact of paperwork and

other information collection burdens imposed on the public. This proposed rulemaking involves information collection requirements which are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3549). The collection of information involved in this notice has been submitted to OMB under OMB control number 0651-00xx. In the Notice “Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions,” RIN 0651-AC70, the information collection for all of the new trials authorized by the Leahy-Smith America Invents Act were provided. In the Notice “Changes to Implement Post-Grant Review Proceedings,” RIN 0651-AC72, the information collection for post-grant review and covered business method patent review combined authorized by the Leahy-Smith America Invents Act were provided. This notice also provides the subset of burden created by the covered business method patent review provisions. The proposed collection will be available at the OMB’s Information Collection Review Web site ([www.reginfo.gov/public/do/PRAMain](http://www.reginfo.gov/public/do/PRAMain)).

The USPTO is submitting the information collection to OMB for its review and approval because this notice of proposed rulemaking will add the following to a collection of information:

- (1) petitions to institute a covered business method patent review (§§ 42.5, 42.6, 42.8, 42.11, 42.13, 42.20, 42.21, 42.22, 42.24(a)(3), 42.63, 42.65, 42.203, 42.205, and 42.302 through 42.304);
- (2) motions (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(5), 42.51 through 42.54, 42.63, 42.64, 42.65, 42.221, 42.123, and 42.223);

- (3) oppositions (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.207, and 42.220);
- (4) replies provided for in 35 U.S.C. 321-329 (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(c), 42.51, 42.52, 42.53, 42.54, 42.63, and 42.65).

The proposed rules also permit filing requests for oral argument (§ 42.70) provided for in 35 U.S.C. 326(a)(10), requests for rehearing (§ 42.71(c)), requests for adverse judgment (§ 42.73(b)), and requests that a settlement be treated as business confidential (§ 42.74(b)) provided for in 35 U.S.C. 327.

**I. Abstract:** The USPTO is required by 35 U.S.C. 131 and 151 to examine applications and, when appropriate, issue applications as patents.

Chapter 32 of title 35 U.S.C. in effect on September 16, 2012, provides for post-grant review proceedings allowing third parties to petition the USPTO to review the patentability of an issued patent under any ground authorized under 35 U.S.C. 282(b)(2). If a trial is initiated by the USPTO based on the petition, as authorized by the USPTO, additional motions may be filed by the petitioner. A patent owner may file a response to the petition and if a trial is instituted, as authorized by the USPTO, may file additional motions.

Section 18 of the Leahy-Smith America Invents Act provides for a transitional program for covered business method patents which will employ the standards and procedures of the post-grant review proceeding with a few exceptions.

In estimating the number of hours necessary for preparing a petition to institute a covered business method patent review, the USPTO considered the estimated cost of preparing a request for inter partes reexamination (\$46,000), the median billing rate (\$340/hour), and the observation that the cost of inter partes reexamination has risen the fastest of all litigation costs since 2009 in the AIPLA Report of the Economic Survey 2011. Since additional grounds are provided in covered business method patent review, the Office estimates the cost of preparing a petition to institute a review will be 33.333% more than the estimated cost of preparing a request for inter partes reexamination, or \$61,333.

In estimating the number of hours necessary for preparing motions after instituting and participating in the review, the USPTO considered the AIPLA Report of the Economic Survey 2011 which reported the average cost of a party to a two-party interference to the end of the preliminary motion phase (\$322,000) and inclusive of all costs (\$631,000). The Office considered that the preliminary motion phase is a good proxy for patentability reviews since that is the period of current contested cases before the trial section of the Board where most patentability motions are currently filed.

The USPTO also reviewed recent contested cases before the trial section of the Board to make estimates on the average number of motions for any matter including priority, the

subset of those motions directed to non-priority issues, the subset of those motions directed to non-priority patentability issues, and the subset of those motions directed to patentability issues based on a patent or printed publication on the basis of 35 U.S.C. 102 or 103. The review of current contested cases before the trial section of the Board indicated that approximately 15% of motions were directed to prior art grounds, 18% of motions were directed to other patentability grounds, 27% were directed to miscellaneous issues, and 40% were directed to priority issues. It was estimated that the cost per motion to a party in current contested cases before the trial section of the Board declines because of overlap in subject matter, expert overlap, and familiarity with the technical subject matter. Given the overlap of subject matter, a proceeding with fewer motions will have a somewhat less than proportional decrease in costs since the overlapping costs will be spread over fewer motions.

It is estimated that the cost of an inter partes review would be 60% of the cost of current contested cases before the trial section of the Board to the end of the preliminary motion period. An inter partes review should have many fewer motions since only one party will have a patent that is the subject of the proceeding (compared with each party having at least a patent or an application in current contested cases before the trial section of the Board). Moreover, fewer issues can be raised since inter partes review will not have priority-related issues that must be addressed in current contested cases before the trial section of the Board. Consequently, a 60% weighting factor should capture the typical costs of an inter partes review.

It is estimated that the cost of a covered business method patent review would be 75% of the cost of current contested cases before the trial section of the Board to the end of the preliminary motion period. A covered business method patent review should have many fewer motions since only one party will have a patent that is the subject of the proceeding (compared with each party having at least a patent or an application in current contested cases before the trial section of the Board). Moreover, fewer issues can be raised since covered business method patent reviews will not have the priority-related issues that must be addressed in current contested cases before the trial section of the Board before the priority phase. Again, a 75% weighting factor should capture the typical costs of a covered business method patent review.

The title, description, and respondent description of the information collection are shown below with an estimate of the annual reporting burdens for the covered business method patent review provisions. Included in this estimate is the time for reviewing instructions, gathering and maintaining the data needed, and completing and reviewing the collection of information. The principal impact of the proposed changes in this notice of proposed rulemaking is to implement the changes to Office practice necessitated by §§ 6(d) and 18 of the Leahy-Smith America Invents Act.

The public uses this information collection to request review and derivation proceedings and to ensure that the associated fees and documentation are submitted to the USPTO.

## **II. Data**

**Needs and Uses:** The information supplied to the USPTO by a petition to institute a review as well as the motions authorized following the institution is used by the USPTO to determine whether to initiate a review under 35 U.S.C. 324 and to prepare a final decision under 35 U.S.C. 328.

**OMB Number:** 0651-00xx

**Title:** Patent Review and Derivation Proceedings

**Form Numbers:** None

**Type of Review:** New Collection

**Likely Respondents/Affected Public:** Individuals or households, businesses or other for profit, not-for-profit institutions, farms, Federal Government, and state, local, or tribal governments.

**Estimated Number of Respondents/Frequency of Collection:** 100 respondents and 515 responses per year.

**Estimated Time Per Response:** The USPTO estimates that it will take the public from 0.1 to 180.4 hours to gather the necessary information, prepare the documents, and submit the information to the USPTO.

**Estimated Total Annual Respondent Burden Hours:** 60,016.5 hours per year.

**Estimated Total Annual (Hour) Respondent Cost Burden:** \$20,405,610 per year. The USPTO expects that the information in this collection will be prepared by attorneys. Using the professional rate of \$340 per hour for attorneys in private firms, the USPTO estimates that the respondent cost burden for this collection will be

approximately \$20,405,610 per year (60,016.5 hours per year multiplied by \$340 per hour).

**Estimated Total Annual Non-hour Respondent Cost Burden:** \$2,355,800 per year. There are no capital start-up or maintenance costs associated with this information collection. However, this collection does have annual (non-hour) costs in the form of filing fees. There are filing fees associated with petitions for covered business method patent review and for requests to treat a settlement as business confidential. The total fees for this collection are calculated in the accompanying table. The USPTO estimates that the total fees associated with this collection will be approximately \$2,355,800 per year.

Therefore, the total estimated cost burden in fiscal year 2013 is estimated to be \$22,761,410 (the sum of the estimated total annual (hour) respondent cost burden (\$20,405,610) plus the estimated total annual non-hour respondent cost burden (\$2,355,800)).

| <b>Item</b>   | <b>Estimated time for response</b> | <b>Estimated annual responses</b> | <b>Estimated annual burden hours</b> |
|---|------------------------------------|-----------------------------------|--------------------------------------|
| Petition for covered business method patent review  | 180.4 hours                        | 50                                | 9,020                                |
| Reply to initial covered business method patent review  | 100 hours                          | 45                                | 4,500                                |
| Request for Reconsideration   | 80 hours                           | 14                                | 1,120                                |
| Motions, replies and oppositions after institution in covered business method patent review         | 130 hours                          | 342                               | 44,460                               |
| Request for oral hearing  | 20 hours                           | 45                                | 900                                  |
| Request to treat a settlement as business confidential  | 2 hours                            | 2                                 | 4                                    |
| Request for adverse judgment, default adverse judgment or settlement                                | 1 hour                             | 10                                | 10                                   |
| Request to make a settlement agreement available  | 1 hours                            | 2                                 | 2                                    |
| Notice of judicial review of a Board decision ( <u>e.g.</u> , notice of appeal under 35 U.S.C. 142) | 0.1 hour                           | 5                                 | 0.5                                  |
| <b>Totals</b>   | <b>.....</b>                       | <b>515</b>                        | <b>60,016.5</b>                      |

| <b>Item</b>  | <b>Estimated annual responses</b> | <b>Fee amount</b> | <b>Estimated annual filing costs</b> |
|--|-----------------------------------|-------------------|--------------------------------------|
| Petition for covered business method patent review   | 50                                | \$47,100          | \$2,355,000                          |
| Reply to covered business method patent review petition                                    | 45                                | 0                 | 0                                    |
| Request for Reconsideration  | 14                                | 0                 | 0                                    |
| Motions, replies and oppositions after initiation in covered business method patent review | 342                               | 0                 | 0                                    |
| Request for oral hearing   | 45                                | 0                 | 0                                    |
| Request to treat a settlement as business confidential                                     | 2                                 | 0                 | 0                                    |
| Request for adverse judgment, default adverse judgment or settlement                       | 10                                | 0                 | 0                                    |
| Request to make a settlement agreement available   | 2                                 | \$400             | \$800                                |
| Notice of judicial review of a Board decision (e.g., notice of appeal under 35 U.S.C. 142) | 5                                 | 0                 | 0                                    |
| <b>Totals</b>  | <b>515</b>                        | <b>....</b>       | <b>\$2,355,800</b>                   |

### **III. Solicitation**

The agency is soliciting comments to: (1) evaluate whether the proposed information requirement is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (2) evaluate the accuracy of the agency's estimate of the burden; (3) enhance the quality, utility, and clarity of the information to be collected; and (4) minimize the burden of collecting the information on

those who are to respond, including by using appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology.

Interested persons are requested to send comments regarding this information collection by **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**, to: (1) The Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10202, 725 17<sup>th</sup> Street, NW, Washington, DC 20503, Attention: Nicholas A. Fraser, Desk Officer for the United States Patent and Trademark Office, and via email at [nfraser@omb.eop.gov](mailto:nfraser@omb.eop.gov); and (2) The Board of Patent Appeals and Interferences by electronic mail message over the Internet addressed to: [TPCBMP\\_Rules@uspto.gov](mailto:TPCBMP_Rules@uspto.gov), or by mail addressed to: Mail Stop Patent Board, Director of the United States Patent and Trademark Office, P.O. Box 1450, Alexandria, VA 22313-1450, marked to the attention of “Lead Judge Michael Tierney, Covered Business Method Patent Review Proposed Rules.”

Notwithstanding any other provision of law, no person is required to respond to nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a currently valid OMB control number.

## **List of Subjects in 37 CFR Part 42**

Administrative practice and procedure, Inventions and patents, Lawyers.

## **Proposed Amendments to the Regulatory Text**

For the reasons stated in the preamble, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office **propose to amend 37 CFR part 42 as proposed to be added** in the February 9, 2012, **issue of the Federal Register as follows:**

### **PART 42——TRIAL PRACTICE BEFORE THE PATENT TRIAL AND APPEAL BOARD**

1. The authority citation for 37 CFR part 42 continues to read as follows:

**Authority:** 35 U.S.C. 2(b)(2), 6, 21, 23, 41, 135, 311, 312, 316, 321-326 and Leahy-Smith America Invents Act, Pub. L. 112-29, sections 6(c), 6(f), and 18, 125 Stat. 284, 304, 311, and 329 (2011).

2. A new subpart D is added to read as follows:

#### **Subpart D – Transitional Program for Covered Business Method Patents**

Sec.

42.300 Procedure; pendency.

42.301 Definitions.

42.302 Who may petition for a covered business method patent review.

42.303 Time for filing.

42.304 Content of petition.

**§ 42.300 Procedure; pendency.**

(a) A covered business method patent review is a trial subject to the procedures set forth in subpart A of this part and is also subject to the post-grant review procedures set forth in subpart C except for §§ 42.200, 42.201, 42.202, and 42.204.

(b) A claim in an unexpired patent shall be given its broadest reasonable construction in light of the specification of the patent in which it appears.

(c) A covered business method patent review proceeding shall be administered such that pendency before the Board after institution is normally no more than one year. The time can be extended by up to six months by the Chief Administrative Patent Judge for good cause.

(d) The rules in this subpart are effective until September 15, 2020, except that the rules shall continue to apply to any petition for a covered business method patent review filed before the date of repeal.

**§ 42.301 Definitions.**

In addition to the definitions in § 42.2, the following definitions apply to proceedings under this subpart:

(a) Covered business method patent means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.

(b) [Reserved].

**§ 42.302 Who may petition for a covered business method patent review.**

(a) A petitioner may not file with the Office a petition to institute a covered business method patent review of the patent unless the petitioner, the petitioner's real party in interest, or a privy of the petitioner has been sued for infringement of the patent or has been charged with infringement under that patent.

(b) A petitioner may not file a petition to institute a covered business method patent review of the patent where the petitioner, the petitioner's real party in interest, or a privy of the petitioner is estopped from challenging the claims on the grounds identified in the petition.

**§ 42.303 Time for filing.**

A petition requesting a covered business method patent review may be filed any time except during the period in which a petition for a post-grant review of the patent would satisfy the requirements of 35 U.S.C. 321(c).

**§ 42.304 Content of petition.**

In addition to any other notices required by subparts A and C of this part, a petition must request judgment against one or more claims of a patent identified by patent number. In addition to the requirements of § 42.22, the petition must set forth:

(a) Grounds for standing. The petitioner must demonstrate that the patent for which review is sought is a covered business method patent, and that the petitioner meets the eligibility requirements of § 42.302.

(b) Identification of challenge. Provide a statement of the precise relief requested for each claim challenged. The statement must identify the following:

(1) The claim;

(2) The specific statutory grounds permitted under paragraph (2) or (3) of 35 U.S.C. 282(b) on which the challenge to the claim is based;

(3) How the challenged claim is to be construed. Where the claim to be construed contains a means-plus-function or step-plus-function limitation as permitted under 35 U.S.C. 112, paragraph 6, the construction of the claim must identify the specific portions of the specification that describe the structure, material, or acts corresponding to each claimed function;

(4) How the construed claim is unpatentable under the statutory grounds identified in paragraph (b)(2) of this section. Where the grounds for unpatentability are based on prior art, the petition must specify where each element of the claim is found in the prior art. For all other grounds of unpatentability, the petition must identify the specific part of the claim that fails to comply with the statutory grounds raised and state how the identified subject matter fails to comply with the statute; and

(5) The exhibit number of supporting evidence relied upon to support the challenge and state the relevance of the evidence to the challenge raised including identifying specific portions of the evidence that support the challenge. The Board may exclude or give no weight to evidence where a party has failed to state its relevance or to identify specific portions of the evidence that support the challenge.

(c) A motion may be filed that seeks to correct a mistake in the petition where the mistake is of a clerical or typographical nature. The grant of such a motion does not change the filing date of the petition.

Date: \_January 31, 2012\_

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David J. Kappos  
Under Secretary of Commerce for Intellectual Property and  
Director of the United States Patent and Trademark Office

[FR Doc. 2012-2532 Filed 02/09/2012 at 8:45 am; Publication Date: 02/10/2012]